Grocery Industry Courts Time-Pressed Consumers with Home Meal Replacements

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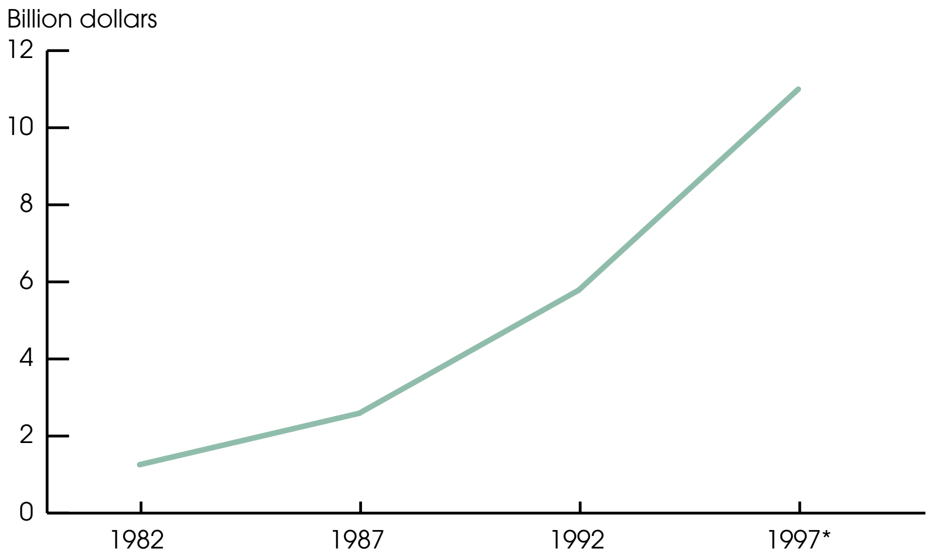
Rising incomes, a growing tendency for both spouses to participate in the labor force, and tightening constraints on family time have increased the demand for meals requiring little or no preparation at home. Long-term changes in the allocation of the food budget reflect the fact that consumers are spending more on prepared meals and relatively less on meal ingrediants for at-home preparation. In 1972, consumers spent 56.6 percent of their total food budget at grocery stores, 14.3 percent at table service restaurants, and 7.3 percent at fast food outlets, while the 1997 expenditure shares at grocery stores, restaurants, and fast food outlets were 43.3 percent, 16.0 percent, and 15.3 percent, respectively (USDA/ERS).

Supermarkets are attempting to regain food dollars lost to the foodservice industry by offering their own menu of fully prepared meals intended for home consumption—widely referred to as Home Meal Replacements (HMR's). This relatively new but rapidly emerging segment of the grocery industry is blurring the distinction between food at home and food away from home. In time, HMR's could seriously compete with traditional foodservice providers (such as restaurants and fast food outlets) for consumer's away-from-home food dollars.

Prepared Meals at Grocery Stores Are Selling Fast

The Census of Retail Trade reports that in 1992, sales of fully prepared meals and snacks at grocery stores (which includes supermarkets, convenience stores, and delicatessens) surpassed $5.7 billion—more than double the $2.6 billion spent on this category in 1987. Over 60 percent of the grocery store HMR sales occurred at supermarkets. Based on the historic growth rate and the current Census estimate of total grocery store sales, 1997 sales of prepared meals at all types of grocery stores are estimated to be about $11 billion (fig. 1). But the consensus among most analysts is that the HMR market grew significantly more rapidly in recent years than it did prior to 1992, so this is a conservative estimate. Other estimates of 1997 prepared meal expenditures at supermarkets (not includ-

Figure 1
Sales of Prepared Meals at Grocery Stores



Note: *Projected.

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ing convenience stores) range from about $10 to $14 billion (Kataoka; Paul).

In addition to HMR's, the other major service-oriented departments in most grocery stores are the bakery and the service deli. In 1992, fewer than 24 percent of all supermarkets offered HMR's, while over 39 percent sold bakery items prepared onsite and 57 percent had a service deli. U.S. sales of HMR's though supermarkets accounted for just over 1 percent of total supermarket sales. However, for the stores that offered HMR's, this department on average contributed a greater proportion of store sales than did either the bakery section or the service deli (table 1). Convenience stores and delicatessens obtain a larger proportion of their total revenue from HMR's than do supermarkets, but U.S. sales of HMR's through these outlets is considerably less than through supermarkets.

According to the Census of Retail Trade, in 1992, grocery stores accounted for about 3.2 percent of total U.S. expenditures on prepared meals, up from 1.9 percent in 1987 and 1.4 percent in 1982. Restaurants and fast food outlets account for the majority of prepared meal sales. Since 1992, the rate of expenditure growth on HMR's has likely exceeded the growth in expenditures at either restaurants or fast food outlets, so the share of the prepared food market held by grocery stores has almost certainly increased.

Challenges Remain for Retailers

Most grocery retailers are still trying to identify the most profitable way to participate in the market for prepared foods. One challenge is appropriately marketing the product to consumers. According to a recent poll by the Consumer Research Network, product quality

Table 1
U.S. Sales of Prepared Meals, Bakery, and Deli Items by Different Types of Retail Firms

Retail segment/ merchandise line	Outlets offering each merchandise line	Sales of specified merchandise line	Total sales for firms handling the merchandise line	Total sales for all firms in retail segment
	Number	*Dollars*	*Percent*	
Supermarkets:	73,357	314,000		
Prepared meals[1]	17,284	3,584	4.3	1.1
Bakery items[2]	28,118	4,608	2.4	1.5
Deli items[3]	41,992	10,167	4.1	3.2
Convenience stores:	30,748	17,310		
Prepared meals	18,678	1,200	10.3	6.9
Bakery items	2,911	65	3.8	.4
Deli items	14,986	510	5.3	3.0
Convenience food stores/ gas stations:[4]	23,035	9,338		
Prepared meals	14,759	817	6.1	4.2
Bakery items	1,729	41	2.4	.2
Deli items	7,897	221	3.1	1.1
Delicatessens:	6,123	1,176		
Prepared meals	2,648	184	23.0	10.4
Bakery items	982	41	12.7	2.3
Deli items	6,123	1,011	57.0	57.0
General merchandise stores:[5]	34,606	245,330		
Prepared meals	8,811	1,619	1.6	.7

Notes: [1]Meals, snacks, sandwiches, and nonalcoholic beverages generally sold for take-out or immediate consumption. [2]Items baked onsite only. [3]Service delicatessen items only; prepared sandwiches are included under prepared meals. [4]Only establishments where gasoline sales do not exceed 49 percent of total sales. [5]Includes department stores, variety stores, general merchandise stores, catalog showrooms, warehouse clubs, and general stores. Source: 1992 Census of Retail Trade; Merchandise Line Sales.

and freshness, as well as the availability of nutrition information for prepared foods, remain key concerns among consumers (Vosburgh). Larson discusses in detail many of the marketing strategies used by grocery retailers that offer prepared meals and notes the need for improvement in the areas of product shrink, employee training, and promotion.

Another challenge is determining the most efficient method of meal preparation. According to the Food Marketing Institute, the majority of supermarkets offering home meal replacements prepare at least some of the menu items onsite (60 percent), typically using products sourced from other departments in the store. Twenty-five percent of retailers source at least some of their menu items from national brand manufacturers of prepared meals, while 16 percent purchase from private label manufacturers, and 9 percent establish central kitchens to supply the chain. Some retailers employ several of the above strategies. Also, about 11 percent of retailers have national or local fast food outlets located onsite.

A survey by John Park suggests that retailers are trending away from preparing meals in-store in favor of either central kitchens or independent food manufacturers. Retailers are concerned about food-safety and quality control, which are easier to manage when all products come from a location that specializes in preparing these food items. In 1998, supermarket food service accounted for 7.5 percent of total sales in the foodservice distributor industry—up from 6.3 percent in 1997 (*Food Institute Report*)—reflecting the growing tendency for supermarkets to outsource at least a part of their prepared meal operations.

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